

NEW ENGLAND POWER COMPANY

Petition for Authorization and Approval of:

- (1) Extension of the Authority to Issue Not Exceeding \$300 Million of New Long-Term Debt, Which May Be in the Form of Bonds, Notes, or Debentures; and**
- (2) Long-Term Debt Pursuant to One or More Loan Agreements or Supplemental Loan Agreements in Connection with the Refunding of \$38.5 Million of Pollution Control Revenue Bonds**

Order Approving Interventions and Procedural Schedule

O R D E R N O. 23,552

September 11, 2000

APPEARANCES: Gallagher, Callahan and Gartrell, PA by Seth L. Shortlidge, Esq. and Geraldine M. Zipser, Esq. on behalf of New England Power Company; the Office of Consumer Advocate by Michael W. Holmes, Esq. on behalf of Residential Utility Consumers; and Larry S. Eckhaus on behalf of the Staff of the New Hampshire Public Utilities Commission.

On July 14, 2000, New England Power Company¹(NEP or the Company), a subsidiary of National Grid USA, a registered public utility holding company system, filed a Petition for Authorization and Approval (Petition)(1) to extend the time to issue new long-term debt from December 31, 2000 to December 31, 2004; to increase the amount of long-term debt to be

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NEP's primary business is the transmission of electric energy in wholesale quantities to other electric utilities, principally its distribution affiliates, including Granite State Electric Company, a New Hampshire jurisdictional utility, as well as municipal and cooperative utilities.

issued from an amount not exceeding \$100 million to an amount not exceeding \$300 million which may be in the form of bonds, notes, or debentures (Long-Term Debt); and to change the interest rate ceiling from 250 basis points above the rate for 30-year Treasury Bills to 11% per annum; and (2) to issue 15-year, \$38.5 million in long-term debt, at a fixed interest rate not exceeding 8% or a variable interest rate not exceeding 11%, pursuant to one or more loan agreements or supplemental loan agreements in connection with the refunding of certain short-term Pollution Control Revenue Bonds with long-term Pollution Control Revenue Refunding Bonds (PCRRBs). The Company avers that Commission approval, as well as the approval of the Massachusetts Department of Telecommunications and Energy, the Connecticut Department of Public Utility Control and the Vermont Public Service Board, must be received by September 28, 2000 or the short-term PCRRBs will be subject to mandatory tender and the Company would lose the ability to issue \$38.5 million tax-exempt debt through the Connecticut Development Authority, thereby increasing interest costs and the Company's overall cost of capital.

On July 21, 2000, NEP filed Exhibit NEP-1, containing actual and pro forma balance sheet and income statement as of March 31, 2000 and pro forma adjustments, and

Exhibit NEP-2, containing the pre-filed Direct Testimony of Thomas F. Killeen, Senior Financial Advisor, Treasury Services Department, National Grid USA Services Company, Inc. pertaining to the Petition.

On August 2, 2000, the New Hampshire Public Utilities Commission (Commission) issued an Order of Notice scheduling a pre-hearing conference for August 22, 2000, and indicated that the filing raised, *inter alia*, issues related to (1) whether the request is a modification of Order No. 22,982 in Docket DR 97-251, *Re New England Power*, 83 NH PUC 392 (1998) pursuant to RSA 365:28, with regard to (a) the amount of the bonds to be issued to fund "trigger payments"² related to purchase power contracts, (b) the maximum rate of interest on the proposed long-term bonds and debt, and (c) extension of the time to issue new long-term debt, and whether such modification and/or request is consistent with the public good pursuant to RSA 369:1; (2) whether issuance of the long-term PCR RBs, and the proposed terms and conditions, is consistent with the public good pursuant to RSA 369:1; (3)

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"Trigger Payments" occur upon certain trigger events such as assignment of a power purchase agreement to PG&E Generating, termination of a power purchase agreement, or changes to an agreement resulting in a reduction of the obligations under a power purchase agreement.

whether the issuance of short-term PCRRBs in September, 1999 required Commission approval; and (4) whether the issues related to the issuance of new long-term debt and long-term PCRRBs should be considered separately.

On August 4, 2000, in anticipation of the pre-hearing conference and the Company's stated need for an unappealable order from the Commission no later than August 29, 2000, Staff issued its first set of discovery requests, which was responded to by NEP on August 15 and 18, 2000.

On August 16, 2000, the Office of Consumer Advocate (OCA), pursuant to the Inter-Agency Memorandum of Understanding dated April 28, 2000, notified the Commission of its intent to participate in the proceeding on behalf of residential utility consumers consistent with RSA 363:28. There were no objections to the OCA's intervention, and no other petitions to intervene were received.

On August 22, 2000, a pre-hearing conference was held during which each Party and Staff provided preliminary positions with regard to the Petition and any of the issues set forth in N.H. Admin Rule Puc 203.05(c). After the pre-hearing conference, the Parties and Staff held a Technical Session. Staff reported to the Commission that the Parties and Staff agreed to an interim procedural schedule as follows:

Company Responses to August 24, 2000
Technical Session Data Requests
re: PCRRBs

Company Responses to September 8, 2000
Technical Session Data Requests
re: \$300 million debt

Technical Session September 21, 2000
re: \$300 million debt

On August 28, 2000, the Company submitted a response to the Commission regarding information concerning NEP's divestiture and sale of the Millstone 3 Nuclear Generation Station (Millstone) to Dominion Resources, Inc., and the procedures through which the Commission would review such a sale. NEP believes that the Reconciliation of Contract Termination Charge to Granite State Electric Company is the appropriate means to review the divestiture and the associated settlement agreement. See *Re Granite State Electric Company*, 83 NH PUC 532, 553-554 (1998).

NEP summarizes its request for approval of the Long-term Debt and PCRRBs. Regarding the Long-Term Debt, NEP maintains that it needs to increase the amount from \$100 million to \$300 million because the total trigger payments of all remaining contracts exceeds \$600 million and the buyout amount for one contract may exceed \$100 million. The higher limit is required in the event more than one buyout occurs

simultaneously. The Company also averred that the proposed higher maximum interest rate is required due to market conditions.

With regard to the \$38.5 million of PCRRBs, the Company proposes to issue the bonds on or before September 28, 2000, with a maturity date of October 15, 2015, at either a fixed or variable rate of interest. The bonds would be issued to the Connecticut Development Authority (CDA) to retire \$38.5 million face amount of short-term PCRRBs previously issued on behalf of NEP in September, 1999 by the CDA. The Company avers that issuance of these bonds would result in an approximately two percentage point reduction in the interest rate versus comparable taxable debt.

The OCA expressed concerns regarding the PCRRBS and the proposed sale of Millstone 3; the proposed changes in the amount, term and interest rate of the long-term debt; and the application of proceeds and the propriety of their intended use.

Staff did not take a position at the time of the pre-hearing conference but suggested that the two financings be considered separately within this proceeding as they were, essentially, unrelated. Moreover, the PCRRBs require a Commission Order by September 28, 2000, while the other bonds

do not have so immediate a requirement. Staff also pointed out that, while the PCRRB request could have been filed any time after September, 1999, it was not filed until July 14, 2000. Staff also questioned whether the original Pollution Control Revenue Bonds were short-term bonds or long-term bonds requiring Commission approval in September, 1999. Staff questioned the status of other required approvals and the impact on Granite State Electric customers.

We find the proposed procedural schedule to be reasonable and therefore approve it. We agree with Staff that the two financings should be considered separately.

Based upon the foregoing, it is hereby

ORDERED, that the interim procedural schedule as proposed by the Parties and Staff is hereby adopted, and the two financings will be considered separately within this proceeding as recommended by Staff. The Parties and Staff shall notify the Commission of any additional scheduling requirements.

By order of the Public Utilities Commission of New
Hampshire this eleventh day of September, 2000.

Douglas L. Patch
Chairman

Susan S. Geiger
Commissioner

Nancy Brockway
Commissioner

Attested by:

Thomas B. Getz
Executive Director and Secretary